UK Week in Markets

Week ending 8 January 2023

Key News and Events

- US non-farm payrolls grew by 223,000 in December, lower than the 256,000 in November, but more than economist forecasts of 200,000. The unemployment rate declined from 3.7% to 3.5%. Jobs growth slowed for the fifth consecutive month, but the labour market's resilience complicates the US Federal Reserve's (Fed) fight against inflation as it attempts to dampen economic growth.

- According to minutes from the Fed's December meeting, officials cautioned that "substantially more evidence" of easing inflation would be needed, in a reiteration of their intent to continue squeezing the economy. Officials warned that price pressures could "prove more persistent than anticipated".

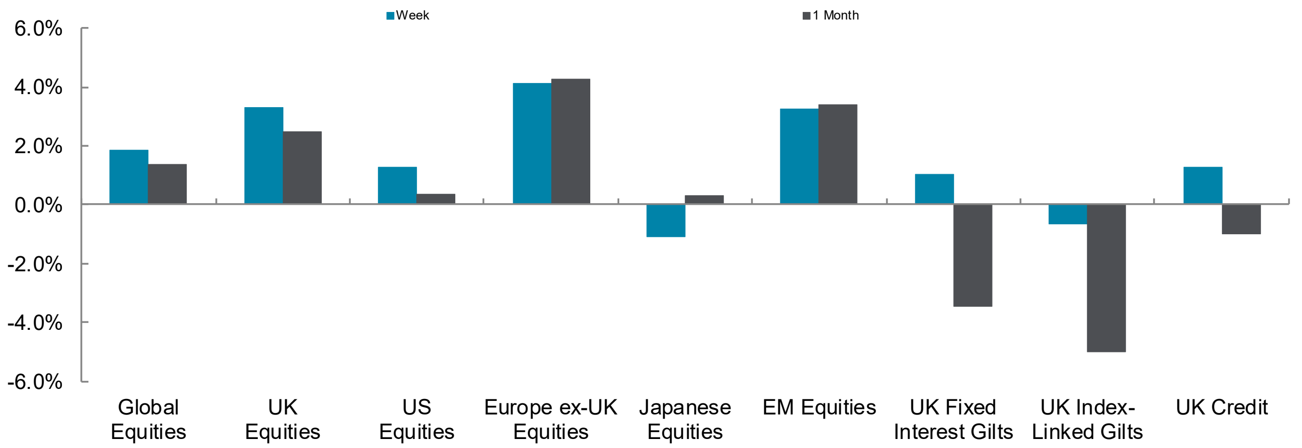
- Eurozone headline inflation eased more than expected, largely because of falling energy prices. The Consumer Price Index rose 9.2% in the year to December, down from 10.1% in November. Core inflation reached a new high of 5.2%, adding to fears that underlying pressures remain.

- Kevin McCarthy was elected as Speaker of the House of Representatives after voting was stretched into the 15th round by opposing Republicans, exposing deep divisions within the party.

- UK house prices fell for the fourth consecutive month as increasing borrowing costs and elevated inflation continued to hit household finances. Average house prices fell 1.5% in December, although the decline represented a slowdown from the previous month's fall of 2.4%.

Market Overview

Index Returns



Cumulative Return Over Last 12 Months

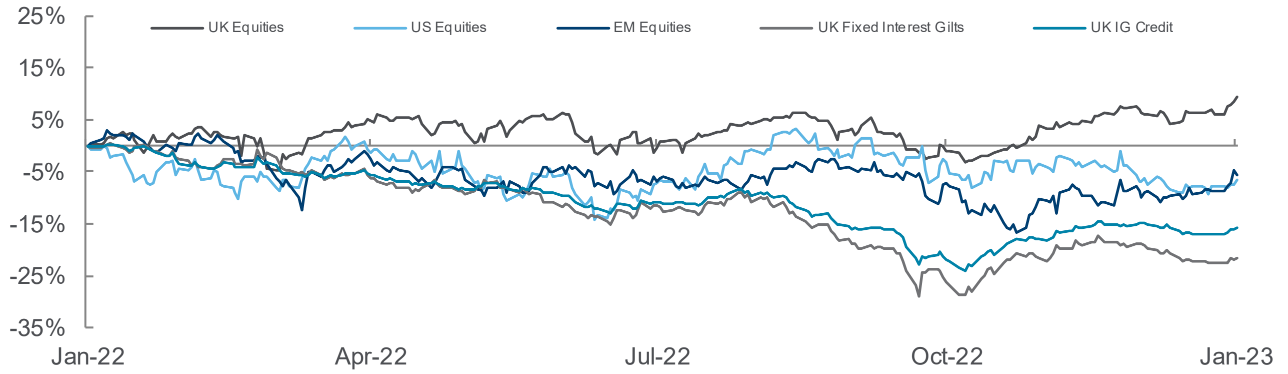


Chart Source: FactSet, FTSE, MSCI, ICE BofAML. Total return in GBP terms shown.

Market Summary

Equities

- Global equity markets rose over the week in both local currency and sterling terms.
- The MSCI AC World Index rose by 2.1% in local currency terms and rose by 1.9% in sterling terms.
- The Materials sector was the best performer, returning 3.9% in sterling terms.
- The Energy sector was the worst performer, returning -0.3% in sterling terms.
- European equities were the best performing market in sterling terms (+4.1%).
- Japanese equities were the worst performing market in sterling terms (-1.1%).

Government Bonds

- The 10-year gilt yield fell by 19bps to 3.47% and the 20-year gilt yield fell by 14bps to 3.89%.
- The 10-year US treasury yield fell by 31bps to 3.56%.
- At the 10-year maturity, the German bund yield fell by 32bps to 2.21% and the French government bond yield fell by 35bps to 2.72%.
- Italian government bond yields fell by 43bps to 4.21%.
- The UK Over 5-year real yield rose by 5bps to 0.51% and the UK 20-year real yield rose by 3bps to 0.50%.
- 20-year breakeven inflation fell by 14bps to 3.43%.

Credit

- The sterling non-gilt spread over UK gilt yields (based on the ICE index) fell by 1bps to 160bps over the week.
- US High Yield bonds rose over the week, returning 2.3%. The US high yield bond spread over US treasury yields fell by 32bps to 447bps over the week.
- The spread of USD denominated EM debt over US treasury yields rose by 19bps to 482bps over the week.

Commodities

- The S&P GSCI index fell by 5.9% in USD terms over the week.
- The S&P GSCI Energy index fell by 8.5% as the price of Brent Crude oil fell by 8.5% to US$79/BBL.
- Industrial metal prices fell by 0.9% as copper prices fell by 0.3% to US$8,363/MT.
- Agricultural prices fell by 3.7% and gold prices rose by 2.1% to US$1,852/Oz.

Currencies

- Sterling strengthened by 0.1% against the US dollar and rose by 0.8% against the euro, ending the week at $1.2/£ and €1.14/£ respectively.
- The US dollar increased by 0.4% against the Japanese yen, ending the fortnight at ¥132.42/$.

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With over 160 years of combined experience, the team is one of the strongest in UK investment consultancy today.

Our experts analyze market movements and economic conditions around the world, setting risk and return expectations for global capital markets.

The team use those expectations to help our clients set and, when it's right to do so, revise their long-term investment policies.

We believe that the medium-term (1–3 years) has been under exploited as a source of investment performance. Maintaining medium-term views that complement our long-term expectations, we help our clients to determine when to make changes to their investment strategy

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